FIRST LITCHFIELD FINANCIAL CORPORATION
13 North Street, P.O. Box 578, Litchfield, Connecticut 06759 (860) 567-8752

JOSEPH J. GRECO
President and Chief Executive Officer

March 6, 2009

CONFIDENTIAL

Mr. Neil M. Barofsky
Special Inspector General
Office of the Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, DC 20220

Dear Mr. Barofsky:

As requested, I am providing information regarding First Litchfield Financial Corporation's (the "Corporation") use of TARP CPP funds and our compliance effort with other provisions of the Emergency Economic Stabilization Act of 2008.

1. We anticipate that we will utilize the $10,000,000 in TARP funds which we received as capital to prudently continue to meet the credit needs within our communities. The funds have not been segregated from other institutional funds. They were received at the holding company and we expect that these funds will continue to be down-streamed by the holding company to the Bank as needed to fund additional loan growth or to serve as a cushion to absorb currently unforeseen losses.

   Since we received the TARP funds on December 12, 2008 we have funded over [redacted] (b) (4) in new loans to consumers and small businesses in our markets. We currently have outstanding loan commitments to fund an additional [redacted] (b) (4) in loans. Our budget for 2009 calls for increasing our average loans outstanding by [redacted] (b) (4) or [redacted] (b) (4) above last year's levels. We are on track to achieving that goal.

   Much of this lending activity would not have been possible without the additional capital provided by TARP. OTTI charges, mainly due to the government's decision to put Fannie Mae and Freddie Mac under conservatorship, put a strain on the Bank's capital. Although we remained "well capitalized" without TARP funding, a prudent strategy might have been to shrink the Bank in order to maintain adequate capitalization during these challenging economic times. The TARP capital offered a prudent alterative to contracting our balance sheet.

As a community bank that has served the credit needs of Litchfield County since 1812, we are using the TARP funds to support the borrowing needs of the people, businesses and communities that we serve and to serve as a supplement to our capital cushion to potentially absorb losses which are not currently known or foreseeable.

We have recently launched a marketing campaign built around our commitment to provide credit to our communities during these difficult times.

I have attached a summary of loan activity from December 1, 2008 to the present. Also attached is a press release issued when we received TARP funds, which clearly states our intent with respect to the deployment of TARP funds.

2. Your letter requests that we address the Corporation's specific plans and the status of implementation of those plans for addressing executive compensation requirements associated with the funding. The fact that the compensation requirements associated with the TARP program continue to change is a source of frustration and expense to our Corporation. As a small community banking institution, we have never engaged in abusive compensation practices or excessive or luxury expenditures or similar practices which would constitute unsafe or unsound practices or be a departure from prudent industry standards for institutions of our size and in our region.

The Compensation Committee of the Board of Directors consists of independent Directors and will continue to meet at least semi-annually to evaluate the compensation plans of the Corporation and assess any risk to the Corporation imposed by such plans. The Compensation Committee initially discussed our plans in connection with the TARP funding in December of 2008 and concluded that the Corporation's compensation arrangements did not encourage excessive risk. We are in the process of evaluating how to implement the standards set forth in the Treasury Guidelines of February 4, 2009 as well as the new requirements set forth in the American Recovery and Reinvestment Act of 2009 - Stimulus Bill ("ARRA").

The Clawback provision of the initial TARP funding in December of 2008 applied only to senior executive officers. In connection with the TARP funding, the top five (5) highly compensated officers executed and delivered Clawback provisions. We now understand that additional Clawback provisions may apply to as many as the next twenty (20) highest paid employees.

With respect to the Bank's change in control agreements, it is important to know that the Bank has never had any agreements which would be construed to be excess parachute payments under Section 280G of the Internal Revenue Code. The Corporation's practice has been to protect its executive officers with change in control agreement which generally provided up to one (1) year compensation in the event of both a change of control and a subsequent termination event. All such agreements are consistent with the provisions with the initial TARP funding. Subsequently, on February 4, 2009, Treasury Guidelines capped Golden Parachute Payments. Still more recently, ARRA has broadly defined and precluded Golden Parachute Payments for senior executive officers and the five (5) next most highly compensated employees. The broad terms of such provision will necessitate the Bank revising its change of control agreements with all executive officers as well as potentially other long term non-officer employees who have historically been provided with six (6) month job protection who may come within the ten (10) most highly compensated employees of the Corporation. The Corporation is in the process of revising such agreements and taking away a prudent contingent benefit which has given a prudent measure of pay protection to valuable long term employees.

The Corporation reviewed the $500,000 deduction limitation imposed by Section 162(m)(5) of the Internal Revenue Code. The Corporation does not have any employees whose compensation approaches such $500,000 threshold.

The Corporation is in the process of reviewing the bonus prohibition which applies to the most highly compensated employee. The Corporation is in compliance with such provision in that no bonuses have been paid to any of the Corporation's executive officers since the receipt of the TARP funds.

The Corporation has never been required to include a "Say on Pay" provision in its proxy statement. We understand that as a result of ARRA, the Corporation will need to include a non-binding "Say on Pay" vote in its proxy material for this year. This provisions adds additional cost and changes the annual meeting from a routine meeting to a non-routine meeting and may delay our Annual Meeting. However, there does not appear to be any alternative to compliance with this retroactive requirement for TARP participants.

The Chief Executive Officer and Chief Financial Officer will submit the appropriate certifications of compliance once they are developed. Given the fact that some of the most significant changes in compensation restrictions are subsequent to the date of your February 6, 2009 letter and significantly post date our acceptance of TARP funds, we trust you will understand that we have not have the opportunity to fully evaluated how we will implement all of these provisions and whether any such limitations may be offset by changes to longer term or deferred forms of executive compensation.

We will provide you with a supplemental response once such evaluation is completed.

I certify the accuracy of all statements, representations, and supporting information provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

Sincerely,

/s/ JOSEPH J. GRECO
JOSEPH J. GRECO
President and Chief Executive Officer

Via email: SIGTARP.response@do.treas.gov and
Regular mail

First Litchfield Financial Corporation
The First National Bank of Litchfield

CPP Recap 12/1/08-2/28/09

Loans Booked	$	(b) (4) [redacted]
Plus unused commitments		
on facilities closed in this period	$	
	$	
Approved not closed		
Commercial	$	
Small Business	$	
Residential	$	
	$	
Committed not closed		
Commercial	$	
Small Business	$	
Residential	$	
	$	
Grand total Loans	**$**	

FIRST LITCHFIELD FINANCIAL CORPORATION

News Release

For Immediate Release

First Litchfield Financial Corporation Sells Preferred Stock Under the Treasury's Capital Purchase Program

Litchfield, Connecticut, December 12, 2008--First Litchfield Financial Corporation (Trading Symbol: FLFL.OB) (the "Company"), the holding company for The First National Bank of Litchfield (the "Bank"), announced that it has sold to the U.S. Treasury Department $10,000,000 of Preferred Stock under the Capital Purchase Program (the "CPP") of the Emergency Economic Stabilization Act of 2008.

President and CEO Joseph J. Greco stated, "The Company and the Bank are both 'well-capitalized' institutions. Nevertheless, in order to grow our capital for our shareholders and to increase the ability of the Bank to make prudent loans to its customers, we determined to seek these funds which are available at attractive rates. We will use these funds to serve the communities we serve by making loans to our customers to purchase homes, grow their businesses and meet their needs for credit."

The Treasury purchased Preferred Stock that qualifies as Tier 1 capital for regulatory purposes and ranks senior to the Common Stock. The Preferred Stock pays a cumulative dividend of 5 percent per annum for the first five years it is outstanding and thereafter at a rate of 9 percent per annum. The Preferred Stock is non-voting, other than voting rights on matters that could adversely affect the Preferred Stock. The Preferred Stock is callable at one hundred percent of the issue price plus any accrued and unpaid dividends after three years. Prior to the end of three years, the Preferred Stock may only be redeemed with the proceeds from a qualifying equity offering of any Tier 1 perpetual preferred or common stock for cash.

As part of the CPP, the Company issued to the Treasury a 10-year Warrant to purchase 199,203 shares of Common Stock at an exercise price of $7.53 per share. If the Warrant were fully exercised, the Company estimates that the ownership percentage of the current shareholders would be diluted by approximately 7.8% percent.

The terms and conditions of the transaction conform to those established by the Treasury and further details may be found at the Treasury's website at http://treas.gov/initiatives/eesa.

At September 30, 2008, the Company's Tier 1 capital ratio was 6.31% and its total risk-based capital ratio was 10.21%; using risk-weighted assets as of September 30, 2008, the Company's Tier I capital ratio and its total risk-based capital ratio after the issuance of the Preferred Stock would be approximately 8.38% and 12.98%, respectively.

Statements contained in this news release contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the beliefs and expectations of management as well as the assumption made using information currently available to management. Because these statements reflect the views of management concerning future events, these statements involve risks, uncertainties and assumptions, including, among others: changes in market interest rates and general and regional economic conditions; changes in government regulations; changes in accounting principles; and the quality or composition of the loan and investment portfolios and other factors that may be described in the Company's quarterly reports on Form 10-Q and its annual report on Form 10-K, each filed with the Securities and Exchange Commission, which are available at the Securities and Exchange Commission's internet website (www.sec.gov) and to which reference is hereby made. Therefore, actual future results may differ significantly from results discussed in the forward-looking statements.

The First National Bank of Litchfield is a community bank operating nine full-service banking offices in Canton, Goshen, Litchfield, Marble Dale, New Milford, Roxbury, Washington and two in Torrington, Connecticut. The Bank maintains a full service Trust Department that offers asset management, custody and estate settlement services to individuals, non-profit and commercial customers. Additionally, the Bank offers non-deposit retail investment products such as mutual funds, annuities and insurance through its relationship with Infinex Investments, Inc. The Bank's subsidiary, First Litchfield Leasing Corporation, provides middle market equipment leasing/financing to the commercial markets of Connecticut and Massachusetts. The Company's website address is www.fnbl.com.

Contact:
Joseph J. Greco, President and CEO
(860) 567-6438

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